

Submitted to:

**President's Commission on the United States Postal Service
1120 Vermont Avenue, N.W., Suite 971
Washington, D.C. 20005**

**Notice and Request for Comments
June 18, 2003, (68 FR 36631)**

Submitted by:

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On Behalf of:

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1900 M Street, N.W., Suite 500
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Citizens for a Sound Economy Foundation ("CSE Foundation"), is a nonprofit, nonpartisan organization with approximately 280,000 members. Its mission is to educate citizens on, and to promote the adoption of, free-market policies, which it believes inure to the benefit of consumers and citizens generally. CSE Foundation welcomes the opportunity to submit comments to the President's Commission on the United States Postal Service. Reforming the Postal Service is critical to both consumers and taxpayers because it is not economically sustainable in its current configuration. However, poorly conceived restructuring plans pose the threat of increasing tax liabilities and distorting private markets. Reform should begin by identifying the proper role of the postal service. If, in fact, it is a private business, it should operate as such without any government created benefits or mandates. On the other hand, if it is unwilling to abandon federal ties, than the Postal Service should not expand into new lines of business or be granted new pricing flexibilities; it should, however, be held to the same levels of oversight and

accountability as any federal entity. This includes compliance with budgetary and regulatory review processes. Although Citizens for a Sound Economy Foundation would encourage moving toward the first alternative, either alternative would be better than the existing system, which is somewhere between both models, sheltered from competitive forces yet lacking substantial federal oversight in critical areas.

As it is currently structured, the Postal Service has been struggling. Technological advances in the private sector, the rise of the Internet, and a dynamic marketplace have brought increased competitive pressures to bear on the Postal Service. Since the last major restructuring in 1970, the number of years ending with a loss has outnumbered the profitable years by a margin of two to one. Moreover, since 2000, according to Dr. Charles E. Guy of the Lexington Institute, the Postal Service “has accumulated a deficit of \$2.6 billion, a net capital deficiency of \$3.0 billion, and an outstanding debt of \$11.1 billion.”¹ In response to mounting financial problems, the Postal Service unveiled its “Transformation Plan” last year, and President Bush created a commission to assess the future of the United States Postal Service.

The Postal Service has proposed a plan to restructure along the lines of a private sector business. It wants more flexibility to set prices and the ability to expand into new lines of business in the dynamic marketplace. While these goals sound reasonable for any business, the Postal Service is not any business; it is a quasi-government entity that enjoys both the blessings and burdens of that status. Allowing the Postal Service into new lines of business and to set prices overlooks more fundamental problems and would not necessarily improve customer service or competition in the marketplace.

¹ Charles E. Guy, “The Postal Service Business Model: Broken or Poorly Managed?” Lexington Institute, February 2003. Comments submitted to the President’s Commission on the Postal Service.

At its core, the Postal Service remains a government-created monopoly, with exclusive access to mailboxes across the country for the purpose of delivering non-urgent mail. As such, it performs differently than do firms in a competitive marketplace. Economists have demonstrated the inefficiencies and costs associated with monopolies, from reduced output and rising costs to the political investments required to maintain monopolistic practices and fend off competitors. Unfortunately, the Postal Service is plagued by all of these.

Before even considering new lines of business, the Postal Service has serious cost issues it must address. Revenues have risen in the past as the Postal Service expanded, but costs have climbed even faster. Costs continue to rise, despite stagnant demand for mail, and the need to control costs is only growing. For the Postal Service, costs have been a major consideration, and addressing cost concerns is critical for the future of the Postal Service. By far, the largest cost for the Postal Service is labor, with an 800,000-strong workforce comprising almost 80 percent of total costs. Economist Michael Schulyer, of the Institute for Research on the Economics of Taxation, provides an example of just how costly it is for the Postal Service to operate: “the Postal Service says its costs are 24 cents when it sells one dollar of stamps at a post office counter, but that its expenses drop to 10 cents when the stamps are sold at a contract postal unit, and only 1.6 cents when the stamps are sold at a supermarket.”²

Like most monopolies, time and technology have led to the creation of viable substitutes to mail. The introduction of fax machines, the Internet, and other technological advances offer consumers cheap and efficient alternatives to traditional

² Michael Schulyer, “Challenges and Opportunities for the President’s Postal Commission,” IRET Congressional Advisory #147, Institute for Research on the Economics of Taxation, February 5, 2003, p 1.

mail service. And a competitive market for advertising through radio, television, and elsewhere continues to put pressure on the direct marketing revenues. Being a politically created entity, the Postal Service also incurs costs determined through the political process rather than the marketplace. In exchange for the exclusive right to deliver mail, the Postal Service must endure mandates that limit its ability to close or consolidate post offices based on profitability, to reduce the frequency of delivery, and to negotiate labor contracts effectively. The Postal Service is also required to provide uniform rates for service, which generates a cross-subsidy from low-cost customers to higher cost deliveries. Such political mandates and restrictions generate inefficiencies and increase costs for consumers.

The Postal Service's transformation plan attempts to shed some of these burdens while expanding into more lucrative fields. Unfortunately, this solution ignores the fact that the Postal Service is, indeed, a government protected monopolist. Should the Postal Service pursue such an agenda, it should do so in a purely private market, without any of the benefits generated by its monopoly status. For example, the Postal Service is seeking more pricing flexibility. But allowing a monopoly to set prices once competition has been eliminated poses a real threat to consumers. The Postal Rate Commission sets prices for the Postal Service because it is a monopoly created by the government. Pricing flexibility is only feasible in a world where the Postal Service has no mandated advantages over its competitors and no captive customers.

In fact, the Postal Service enjoys many competitive advantages beyond the simple monopoly on the delivery of mail, including an exemption from federal, state, and local taxes, and a below-market credit line with the U.S. Treasury that guarantees the

organization will not face bankruptcy. These benefits provide a strong advantage over private sector competitors. Any plans to reform the Postal Service must begin by acknowledging these benefits and assessing their impact on the market.

Given the magnitude of the problems and the transformations occurring in the marketplace, fundamental reforms are required. As suggested by the Postal Service, applying business principles is an important component of the reform process. And like any business, developing a business plan for the future requires a careful assessment of both the assets and liabilities of the entity in question. Along these lines, rather than seeking more pricing flexibility for a monopoly, or allowing that monopoly to expand into new lines of business, reform should begin with basic fundamentals. Before any reforms are considered, the Postal Service must undergo a thorough independent audit of assets and liabilities that will provide a better evaluation of the organization's future viabilities. For example, a better understanding of real estate values may and an inventory of excess real estate may provide new sources of revenue for the Postal Service through sales of excess real estate.

The Postal Service continues to struggle and views becoming a more dynamic player in the market as its only way out. This might not be so bad if it were a just another competitor in the marketplace. But it is not. At its core it remains a monopoly. Unless it is willing to shed its monopoly for a truly competitive marketplace, more prudent reforms would refocus the organization on its core business. The far more important issue for the Postal Service is to address its escalating costs. In fact, reforms should focus on a reducing unnecessary activities and identifying cheaper private sector outsourcing opportunities whenever possible. In addition, as noted by the General Accounting

Office, critical areas of focus beyond cost control should also include such important changes as increased productivity and “complete and reliable” financial and performance information, among others.³ Citizens for a Sound Economy Foundation urges the commission to keep these concerns in mind as well as the potential impacts of any reforms on consumers and taxpayers as it evaluates the future of the Postal Service.

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³ General Accounting Office, “High Risk Series: An Update,” GAO-03-119, January 2003